

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Hillsdale County	County Hillsdale
Fiscal Year End 12/31/2006	Opinion Date 6/23/07	Date Audit Report Submitted to State 6/27/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

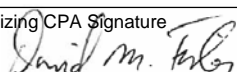
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) (SINGLE AUDIT)	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

COUNTY OF HILLSDALE, MICHIGAN



Financial Statements

For the Fiscal Year Ended December 31, 2006



REHMANN ROBSON

Certified Public Accountants

HILLSDALE COUNTY, MICHIGAN

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HILLSDALE COUNTY, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 23, 2007

Board of Commissioners
County of Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **COUNTY OF HILLSDALE, MICHIGAN**, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Care Facility Enterprise Fund, which is a major fund, and therefore, a separate opinion unit. The Medical Care Facility represents 74% and 90% of the business-type activities assets and program revenues, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Medical Care Facility Enterprise Fund and the Road Commission Component Unit were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hillsdale, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2007, on our consideration of the **County of Hillsdale, Michigan's** internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillsdale County's basic financial statements. The combining and individual fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The following discussion and analysis of the financial performance for County of Hillsdale ("County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the County's financial statements which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended December 31, 2006:

- In 2004, the State of Michigan mandated a change in the way Michigan counties are funded. Revenue sharing for counties was eliminated and replaced by a shift in the county property tax collections over the course of the subsequent 3 1/2 years. Counties were required to begin setting aside 1/3 of property tax collections each year from 2004 through 2006 to supplement the lost revenue sharing. According to projections by the State of Michigan, this alternative funding method should keep Hillsdale County at similar revenue levels through the year 2010.
- Operating millages for both the Hillsdale County Medical Care Facility (.60 mills) and Ambulance Service (.25 mills) were renewed by the voters during 2006. The renewals were for six years for each millage. A new millage of .15 mills for 6 years was also approved for Ambulance Service with this new money earmarked for equipment purchases.
- Voters also approved a 20-year millage authorizing the sale of an \$8 million bond issue to finance the construction of a new wing at the Medical Care Facility. This project, when completed, will increase the number of private rooms at the Facility from 24 to 120. The bonds were sold in November, 2006, at a net interest rate of 4.086%.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the County's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

Fund financial statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Hillsdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the County's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- Governmental Funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

- Proprietary Funds - *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate workers compensation costs internally among the County's various functions. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.
- Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County of Hillsdale's own programs. The basis of accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

The County as a Whole

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps explain the condition of the County. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) of the County as of the end of the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current Assets	\$ 12,522	\$ 9,886	\$ 7,674	\$ 16,095	\$ 20,196	\$ 25,981
Capital Assets	<u>3,742</u>	<u>3,667</u>	<u>3,652</u>	<u>4,467</u>	<u>7,394</u>	<u>8,134</u>
Total Assets	<u>\$ 16,264</u>	<u>\$ 13,553</u>	<u>\$ 11,326</u>	<u>\$ 20,562</u>	<u>\$ 27,590</u>	<u>\$ 34,115</u>
Current Liabilities	\$ 5,311	\$ 1,898	\$ 1,931	\$ 4,491	\$ 7,220	\$ 6,389
Long-term Liabilities	<u>3,891</u>	<u>3,566</u>	<u>6,250</u>	<u>12,010</u>	<u>10,141</u>	<u>15,576</u>
Total Liabilities	<u>\$ 9,202</u>	<u>\$ 5,464</u>	<u>\$ 8,181</u>	<u>\$ 16,501</u>	<u>\$ 17,361</u>	<u>\$ 21,965</u>
Net Assets:						
Invested in Capital Assets, net of debt	\$ 2,347	\$ 2,296	\$ 1,382	\$ 1,521	\$ 3,729	\$ 3,817
Restricted	571	671	541	667	1,112	1,338
Unrestricted	<u>4,144</u>	<u>5,122</u>	<u>1,222</u>	<u>1,873</u>	<u>5,388</u>	<u>6,995</u>
Total Net Assets	<u>\$ 7,062</u>	<u>\$ 8,089</u>	<u>\$ 3,145</u>	<u>\$ 4,061</u>	<u>\$ 10,229</u>	<u>\$ 12,150</u>

The County's combined net assets increased 18.8% from a year ago - - increasing from \$10.2 million to \$12.1 million. Governmental activities experienced an increase in net assets of \$1.03 million (14.5%). This was mainly the result of the State-mandated shift in property taxes to replace State Revenue Sharing. Business-type activities experienced a \$916 thousand increase in net assets (29.1%), mainly due to improved financial results at the Medical Care Facility.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes in net assets (in thousands of dollars) of the County during the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Program Revenues						
Charges for Services	\$ 2,314	\$ 2,278	\$ 11,415	\$ 11,863	\$ 13,729	\$ 14,141
Operating Grants and Contributions	3,157	3,300	1,780	3,617	4,937	6,917
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes - general purposes	8,299	8,667	0	0	8,299	8,667
State Shared Revenue	0	0	0	0	0	0
Unrestricted Investment Earnings	159	214	0	0	159	214
Transfers and Other Revenue	435	450	(435)	(450)	0	0
Total Revenues	<u>\$ 14,364</u>	<u>\$ 14,909</u>	<u>\$ 12,760</u>	<u>\$ 15,030</u>	<u>\$ 27,124</u>	<u>\$ 29,939</u>
Program Expenses						
General Government	\$ 2,532	\$ 2,467	\$ 0	\$ 0	\$ 2,532	\$ 2,467
Legislative	116	118	0	0	116	118
Judicial	1,716	1,767	0	0	1,716	1,767
Public Safety	3,448	3,461	0	0	3,448	3,461
Public Works	19	19	0	0	19	19
Health and Welfare	2,045	2,319	0	0	2,045	2,319
Other governmental activities	3,443	3,731	0	0	3,443	3,731
Interest on Long-Term Debt	13	0	0	0	13	0
Medical Care Facility Operations	0	0	11,321	12,850	11,321	12,850
Delinquent Tax Collection	0	0	145	205	145	205
Emergency Services	0	0	838	789	838	789
Geographic Information Services	0	0	57	38	57	38
Board of Public Works	0	0	346	232	346	232
Total Expenses	<u>\$ 13,332</u>	<u>\$ 13,882</u>	<u>\$ 12,707</u>	<u>\$ 14,114</u>	<u>\$ 26,039</u>	<u>\$ 27,996</u>
Change in Net Assets	<u>\$ 1,032</u>	<u>\$ 1,027</u>	<u>\$ 53</u>	<u>\$ 916</u>	<u>\$ 1,085</u>	<u>\$ 1,943</u>

Governmental Activities

The County's total governmental revenues and expenses increased only nominally during the year (3.8% revenues and 4.1% for expenses).

Business-Type Activities

The County's business-type activities consist primarily of the Medical Care Facility Fund. Medical Care Facility revenue increased approximately \$2.47 million and expenses increased approximately \$1.53 million. The resulting surplus of \$925 thousand was a tremendous improvement over the \$1.18 million in total losses incurred over the past three years. The improvement was the result of full occupancy levels for most of the year, along with the release of Medicaid funds from prior years that were being held by the State of Michigan.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's Major Funds for 2006 include the General Fund, the Revenue Sharing Reserve Fund, and the Senior Center Debt Service Fund.

The General Fund pays for most of the County's governmental services. The most significant are public safety, general government, employee benefits, and judicial, which incurred expenses of approximately \$2.9 million, \$2.4 million, \$2.2 million, and \$1.7 million, respectively. Some of these services are partially supported by State and Federal grants, with the remaining cost funded by general revenue sources of the General Fund.

The Revenue Sharing Reserve Fund is used to account for the accelerated property tax collections which replaced State Revenue Sharing beginning in the year 2005. During 2006, \$1,877,936 was transferred into the fund (representing 1/3 of the 2004 property tax levy), and \$840,835 was transferred out to the General Fund (representing what would have been received in State Revenue Sharing). The remaining balance in the fund at December 31, 2006, was \$3,444,361.

The Senior Center Debt Service Fund was used to account for principal and interest payments on the 2005 Senior Center Bond Issue. Lease payments received from the Senior Center cover these bond payments.

General Fund Budgetary Highlights

The year ended December 31, 2006 was the fourth year in a row that the General Fund spent more than the revenue for the year. This year's deficit of \$82,286 was the lowest of the four years.

Over the course of the year, the Board of Commissioners amended the budget to take into account unexpected events during the year. The amendments were fairly minor - a \$30,000 increase in the revenue budget for interest due to rising interest rates on County investments; a \$47,000 increase in Information Technology for replacement of computer hardware and software; and other minor adjustments. Employee benefit costs were lower than expected due to a smaller (6%) than projected increase in health insurance premiums.

Capital Asset and Debt Administration

At the end of the fiscal year 2006, the County had approximately \$8,134,559 (net of depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, equipment, etc. Details of the County's capital assets are contained in the notes to the financial statements.

The County continues to pay down debt obligations related to capital investments. At December 31, 2006, debt related to capital assets of governmental activities totaled \$3,801,089. Debt related to business-type activities totaled \$14,130,000, most of which relates to the Medical Care Facility.

COUNTY OF HILLSDALE MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The concerns of last year continue - - a stagnant local and state economy, high unemployment rates, a soft real estate market, higher energy costs, etc. - - but there are some bright spots. The agricultural community, which represents 25% of the County's tax base, is beginning to prosper from strong commodity pricing. There has been increased investment in grain storage, and farm land continues to increase in value. The County Commissioners were able to adopt a balanced budget for the year 2007 through employee attrition and limited growth in expenditures. In addition, a new health insurance system will be implemented July 1, 2007, which has the potential to save \$200,000+ per year.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the County Treasurer's office at 29 N. Howell Street, Hillsdale, Michigan.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Assets

December 31, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,866,214	\$ 10,521,273	\$ 14,387,487	\$ 1,197,147
Receivables, net	6,010,385	5,430,504	11,440,889	1,097,948
Prepaid items and other assets	9,472	142,913	152,385	696,864
Capital assets not being depreciated	330,003	1,236,683	1,566,686	4,309,724
Capital assets being depreciated, net	3,337,396	3,230,477	6,567,873	24,937,394
Total assets	13,553,470	20,561,850	34,115,320	32,239,077
Liabilities				
Accounts payable and accrued expenses	366,236	1,647,570	2,013,806	871,428
Unearned revenue	1,297,067	723,450	2,020,517	-
Long-term liabilities:				
Due within one year	234,895	2,120,000	2,354,895	93,304
Due in more than one year	3,566,194	12,010,000	15,576,194	289,945
Total liabilities	5,464,392	16,501,020	21,965,412	1,254,677
Net assets				
Invested in capital assets, net of related debt	2,296,074	1,521,045	3,817,119	29,244,314
Restricted for:				
Debt service	465	-	465	-
Endowments and trusts	3,045	-	3,045	-
Other purposes	667,746	666,663	1,334,409	-
Unrestricted	5,121,748	1,873,122	6,994,870	1,740,086
Total net assets	\$ 8,089,078	\$ 4,060,830	\$ 12,149,908	\$ 30,984,400

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities
For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 118,458	\$ -	\$ -	\$ -	\$ (118,458)
Judicial	1,766,529	771,380	1,226,653	-	231,504
General government	2,466,677	651,937	416,376	-	(1,398,364)
Public safety	3,461,047	532,566	405,275	-	(2,523,206)
Public works	19,079	-	-	-	(19,079)
Health and welfare	2,319,132	245,614	637,528	-	(1,435,990)
Recreation and cultural	63,945	39,738	26,321	-	2,114
Other governmental activities	3,667,301	36,942	587,469	-	(3,042,890)
Interest on long-term debt	(531)	-	-	-	531
Total governmental activities	<u>13,881,637</u>	<u>2,278,177</u>	<u>3,299,622</u>	<u>-</u>	<u>(8,303,838)</u>
Business-type activities:					
Medical Care Facility	12,850,264	10,816,547	2,959,547	-	925,830
Delinquent tax collections/forfeitures	204,630	394,827	317,870	-	508,067
Emergency services	788,896	646,342	96,959	-	(45,595)
Geographic information services	38,131	5,760	10,375	-	(21,996)
Board of Public Works	232,385	-	232,323	-	(62)
Total business-type activities	<u>14,114,306</u>	<u>11,863,476</u>	<u>3,617,074</u>	<u>-</u>	<u>1,366,244</u>
 Total primary government	 <u>\$ 27,995,943</u>	 <u>\$ 14,141,653</u>	 <u>\$ 6,916,696</u>	 <u>\$ -</u>	 <u>\$ (6,937,594)</u>
Component units					
County Drains	\$ 456,955	\$ 146,782	\$ 304,657	\$ -	\$ (5,516)
County Roads	<u>6,560,348</u>	<u>1,632,303</u>	<u>5,236,028</u>	<u>-</u>	<u>307,983</u>
 Total component units	 <u>\$ 7,017,303</u>	 <u>\$ 1,779,085</u>	 <u>\$ 5,540,685</u>	 <u>\$ -</u>	 <u>\$ 302,467</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2006

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (8,303,838)	\$ 1,366,244	\$ (6,937,594)	\$ 302,467
General revenues:				
Property taxes	8,667,219	-	8,667,219	-
Unrestricted investment earnings	214,263	-	214,263	54,921
Transfers - internal activities	450,000	(450,000)	-	-
Total general revenues and transfers	9,331,482	(450,000)	8,881,482	54,921
Change in net assets	1,027,644	916,244	1,943,888	357,388
Net assets, beginning of year, as restated	7,061,434	3,144,586	10,206,020	30,627,012
Net assets, end of year	<u>\$ 8,089,078</u>	<u>\$ 4,060,830</u>	<u>\$ 12,149,908</u>	<u>\$ 30,984,400</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

**Balance Sheet
Governmental Funds
December 31, 2006**

	General	Revenue Sharing Reserve	Senior Center Debt Service	Nonmajor Funds	Totals
Assets					
Cash and cash equivalents	\$ 715,150	\$ 1,563,644	\$ -	\$ 1,541,222	\$ 3,820,016
Taxes receivable	1,297,067	1,877,936	-	-	3,175,003
Accounts receivable	254,859	-	2,065,000	21,473	2,341,332
Grants receivable	119,708	-	-	-	119,708
Prepaid expenditures	8,947	-	-	525	9,472
Advance to component unit	357,967	-	-	-	357,967
Interest receivable	11,303	2,781	-	2,291	16,375
<u>TOTAL ASSETS</u>	\$ 2,765,001	\$ 3,444,361	\$ 2,065,000	\$ 1,565,511	\$ 9,839,873
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 161,848	\$ -	\$ -	\$ 33,458	\$ 195,306
Accrued expenditures	81,840	-	-	10,909	92,749
Due to other governments	-	-	-	30,000	30,000
Deferred revenue	1,297,067	-	2,065,000	-	3,362,067
Total liabilities	1,540,755	-	2,065,000	74,367	3,680,122
Fund balances					
Reserved for advances and prepaids	366,914	-	-	-	366,914
Reserved for family counseling	21,501	-	-	-	21,501
Unreserved:					
Undesignated	835,831	3,444,361	-	-	4,280,192
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	667,746	667,746
Debt service funds	-	-	-	465	465
Capital projects funds	-	-	-	819,888	819,888
Permanent funds	-	-	-	3,045	3,045
Total fund balances	1,224,246	3,444,361	-	1,491,144	6,159,751
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 2,765,001	\$ 3,444,361	\$ 2,065,000	\$ 1,565,511	\$ 9,839,873

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2006

Fund balances - total governmental funds	\$ 6,159,751
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	330,003
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Add: capital assets being depreciated, net	3,337,396
--	-----------

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets, such as certain receivables, are offset by deferred revenue in the governmental funds.

Add: deferred loans receivable	2,065,000
--------------------------------	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	24,375
---	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and leases payable	(3,436,325)
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Subtract: compensated absences	(364,764)
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Subtract: accrued interest on long-term liabilities	(26,358)
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Net assets of governmental activities	<u>\$ 8,089,078</u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Revenue Sharing Reserve	Senior Center Debt Service	Nonmajor Funds	Totals
Revenue					
Taxes and special assessments	\$ 5,946,497	\$ 1,877,936	\$ -	\$ 842,786	\$ 8,667,219
Intergovernmental	1,767,427	-	-	23,340	1,790,767
Licenses and permits	69,461	-	-	-	69,461
Contributions	-	-	153,757	167,040	320,797
Fines and forfeits	404,232	-	-	85,133	489,365
Charges for services	959,811	-	-	489,096	1,448,907
Reimbursements and refunds	447,346	-	-	83,234	530,580
Interest and rentals	484,707	-	-	40,849	525,556
Other revenue	-	-	-	568,095	568,095
Total revenue	10,079,481	1,877,936	153,757	2,299,573	14,410,747
Expenditures					
Current:					
Legislative	118,458	-	-	-	118,458
Judicial	1,740,077	-	-	19,142	1,759,219
General government	2,361,109	-	-	46,003	2,407,112
Public safety	2,953,732	-	-	469,018	3,422,750
Public works	19,079	-	-	-	19,079
Health and welfare	452,840	17	-	2,064,248	2,517,105
Recreation and cultural	-	-	-	63,945	63,945
Other	3,045,066	-	-	-	3,045,066
Capital outlay	201,039	-	-	-	201,039
Debt service:					
Principal	-	-	75,000	90,000	165,000
Interest	-	-	87,701	77,055	164,756
Total expenditures	10,891,400	17	162,701	2,829,411	13,883,529
Revenue over (under) expenditures	(811,919)	1,877,919	(8,944)	(529,838)	527,218
Other financing sources (uses)					
Proceeds from capital lease	100,285	-	-	-	100,285
Transfers in	1,290,835	-	-	686,818	1,977,653
Transfers (out)	(661,487)	(840,835)	-	(25,331)	(1,527,653)
Total other financing sources (uses)	729,633	(840,835)	-	661,487	550,285
Net change in fund balances	(82,286)	1,037,084	(8,944)	131,649	1,077,503
Fund balances, beginning of year, as restated	1,306,532	2,407,277	8,944	1,359,495	5,082,248
Fund balances, end of year	\$ 1,224,246	\$ 3,444,361	\$ -	\$ 1,491,144	\$ 6,159,751

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006

Net change in fund balances - total governmental funds	\$ 1,077,503
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	100,285
Subtract: depreciation expense	(170,502)
Subtract: book value of capital asset disposals	(4,200)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on deferred long-term receivables	(75,000)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Subtract: capital lease proceeds	(100,285)
Add: principal payments on bonds	165,000
Add: principal payments on capital leases	33,960

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in accrued interest on bonds	531
Subtract: increase in the accrual of compensated absences	(9,230)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities:

Add: net operating income from governmental activities accounted for in the internal service fund	9,582
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Change in net assets of governmental activities	<u><u>\$ 1,027,644</u></u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes				
Property taxes	\$ 5,968,600	\$ 6,012,600	\$ 5,946,497	\$ (66,103)
Intergovernmental				
Community Policing Grant	-	-	1,451	1,451
Juvenile Officer's Grant	28,000	28,000	54,634	26,634
Judges Salaries Grant	231,367	231,367	231,367	-
Juror Compensation Grant	3,000	3,000	4,215	1,215
Liquor Tax	73,631	73,631	168,479	94,848
Secondary Road Patrol Grant	102,500	102,500	136,719	34,219
Marine Safety Grant	18,300	39,200	39,203	3
Emergency Management Grant	3,300	3,300	3,002	(298)
Narcotics Grant	19,400	19,400	16,185	(3,215)
Drunk Driving Grant	16,400	16,400	18,193	1,793
Cigarette Tax Distribution	27,317	27,317	27,479	162
Prosecutor - Cooperative Reimbursement Program	62,000	62,000	60,534	(1,466)
FOC - Cooperative Reimbursement Program	430,000	441,000	407,759	(33,241)
FOC - Other	122,000	122,000	104,218	(17,782)
Survey and Remonumentation Grant	44,841	67,639	69,037	1,398
State court equity funding	265,000	265,000	251,087	(13,913)
Community Development	-	-	96,093	96,093
Elections	15,000	47,000	49,284	2,284
Other intergovernmental revenue	34,000	34,000	28,488	(5,512)
Total intergovernmental	1,496,056	1,582,754	1,767,427	184,673
Licenses and permits				
Dog licenses	62,000	62,000	62,053	53
Other licenses and permits	8,400	8,400	7,408	(992)
Total licenses and permits	70,400	70,400	69,461	(939)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue (continued)				
Fines and forfeits				
Ordinance fines and costs	\$ 407,000	\$ 417,000	\$ 372,417	\$ (44,583)
Bond forfeitures	10,200	10,200	31,815	21,615
Total fines and forfeits	417,200	427,200	404,232	(22,968)
Charges for services				
Circuit Court	56,000	56,000	48,787	(7,213)
District Court	167,900	167,900	173,188	5,288
Friend of the Court	42,100	42,100	47,668	5,568
Probate/Family Court	19,000	19,000	16,069	(2,931)
Clerk	53,000	53,000	50,576	(2,424)
Register of deeds	396,000	403,000	376,095	(26,905)
Sheriff	92,500	99,500	79,620	(19,880)
Equalization	81,000	94,000	80,719	(13,281)
Other charges for services	109,500	109,500	87,089	(22,411)
Total charges for services	1,017,000	1,044,000	959,811	(84,189)
Interest and rentals				
Interest revenue	160,000	190,000	214,263	24,263
Rents	272,664	272,664	270,444	(2,220)
Total interest and rentals	432,664	462,664	484,707	22,043
Other revenue/reimbursements				
Reimbursements and refunds	528,625	534,625	447,346	(87,279)
Total revenue	9,930,545	10,134,243	10,079,481	(54,762)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures				
Legislative				
Board of Commissioners	\$ 120,340	\$ 120,340	\$ 118,458	\$ (1,882)
Judicial				
Circuit Court	165,074	165,074	168,848	3,774
District Court	459,864	459,864	465,389	5,525
Friend of the Court	423,375	423,375	410,186	(13,189)
Law Library	2,000	2,000	1,961	(39)
Jury Commission	3,600	3,600	2,842	(758)
Probate Court	541,731	541,731	510,520	(31,211)
Family/Juvenile Court	174,300	182,300	180,331	(1,969)
Total judicial	1,769,944	1,777,944	1,740,077	(37,867)
General government				
Elections	62,000	74,000	72,694	(1,306)
Clerk	260,174	260,174	247,379	(12,795)
Register of deeds	127,031	127,031	124,344	(2,687)
Planning	4,000	4,000	1,429	(2,571)
Equalization	160,750	167,750	168,436	686
Information technology	204,400	251,400	250,911	(489)
Prosecutor	345,931	360,931	360,790	(141)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
General government (concluded)				
Survey & Remonumentation	\$ 44,841	\$ 69,637	\$ 69,638	\$ 1
Treasurer	253,029	253,029	250,927	(2,102)
MSU Extension	189,916	189,916	183,506	(6,410)
Courthouse and grounds	273,635	273,635	263,514	(10,121)
FOC Building	34,816	34,816	28,003	(6,813)
DHS Building	79,982	79,982	77,253	(2,729)
Broad Street Property	17,000	18,000	17,561	(439)
Drain Commissioner	149,505	149,505	139,881	(9,624)
Community development	-	-	96,093	96,093
Bus Garage	9,338	9,338	8,750	(588)
Total general government	2,216,348	2,323,144	2,361,109	37,965
Public safety				
Sheriff's Department	1,646,971	1,646,971	1,640,923	(6,048)
Secondary Road Patrol Grant	142,421	142,421	137,502	(4,919)
Camden Patrol	12,000	19,000	17,934	(1,066)
Marine Patrol	29,103	44,103	43,978	(125)
Narcotics enforcement	68,181	71,181	72,195	1,014
Universal hiring	186,149	190,149	191,531	1,382
Operation Spotlight	-	10,000	9,417	(583)
Jail Operation	782,521	782,521	771,241	(11,280)
Inmate work program	-	8,000	5,885	(2,115)
Youth alcohol	-	5,000	4,429	(571)
Emergency Preparedness	38,490	38,490	38,988	498
Animal control	20,760	20,760	19,709	(1,051)
Total public safety	2,926,596	2,978,596	2,953,732	(24,864)
Public works				
Board of Public Works	19,943	19,943	19,079	(864)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Health and welfare				
Health Department	\$ 40,649	\$ 40,649	\$ 41,419	\$ 770
Medical Examiner	51,400	51,400	51,985	585
Veteran's Burial	17,100	17,100	16,109	(991)
Veteran's Affairs Office	59,966	59,966	61,619	1,653
District Health Department	281,708	281,708	281,708	-
Total health and welfare	450,823	450,823	452,840	2,017
Other				
Employee Benefits	2,296,000	2,256,000	2,187,714	(68,286)
Property/Liability Insurance	265,000	365,000	334,262	(30,738)
Other	295,000	505,749	357,860	(147,889)
Appropriations	204,159	205,339	165,230	(40,109)
Total other	3,060,159	3,126,749	3,045,066	(81,683)
Capital outlay	176,550	187,550	201,039	13,489
Total expenditures	10,740,703	10,985,089	10,891,400	(93,689)
Revenue over (under) expenditures	(810,158)	(850,846)	(811,919)	38,927
Other financing sources (uses)				
Proceeds from capital lease	-	-	100,285	100,285
Transfers in	1,350,835	1,372,435	1,290,835	(81,600)
Transfers (out)	(661,487)	(661,487)	(661,487)	-
Total other financing (uses)	689,348	710,948	729,633	18,685
Net change in fund balances	(120,810)	(139,898)	(82,286)	57,612
Fund balance, beginning of year, as restated	1,306,532	1,306,532	1,306,532	-
Fund balance, end of year	\$ 1,185,722	\$ 1,166,634	\$ 1,224,246	\$ 57,612

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ 1,877,936	\$ 1,877,936	\$ 1,877,936	\$ -
Expenditures				
General government	-	-	17	17
Revenue over expenditures	1,877,936	1,877,936	1,877,919	(17)
Other financing sources (uses)				
Transfers out	(840,835)	(840,835)	(840,835)	-
Net changes in fund balances	1,037,101	1,037,101	1,037,084	(17)
Fund balances, beginning of year	2,407,277	2,407,277	2,407,277	-
Fund balances, end of year	\$ 3,444,378	\$ 3,444,378	\$ 3,444,361	\$ (17)

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Enterprise Funds				Internal Service
		2005			
	Medical Care Facility	Delinquent Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Assets					
Current assets:					
Cash and cash equivalents	\$ 8,518,768	\$ 708,572	\$ 1,293,933	\$ 10,521,273	\$ 46,198
Taxes receivable	723,450	1,018,037	231,278	1,972,765	-
Accounts receivable	1,383,223	-	34,197	1,417,420	-
Interest receivable	4,961	174	5,184	10,319	-
Current portion of leases receivable	-	-	150,000	150,000	-
Other assets	142,913	-	-	142,913	-
Total current assets	10,773,315	1,726,783	1,714,592	14,214,690	46,198
Noncurrent assets:					
Leases receivable, net of current portion	-	-	1,880,000	1,880,000	-
Capital assets not being depreciated	1,236,683	-	-	1,236,683	-
Capital assets being depreciated, net	3,182,083	-	48,394	3,230,477	-
Total noncurrent assets	4,418,766	-	1,928,394	6,347,160	-
Total assets	15,192,081	1,726,783	3,642,986	20,561,850	46,198
Liabilities					
Current liabilities:					
Accounts payable	840,221	-	4,128	844,349	21,823
Accrued liabilities	760,137	-	10,193	770,330	-
Due to other governments	-	-	32,891	32,891	-
Unearned revenue	723,450	-	-	723,450	-
Current portion of long-term debt	330,000	1,200,000	590,000	2,120,000	-
Total current liabilities	2,653,808	1,200,000	637,212	4,491,020	21,823
Long-term liabilities:					
Due in more than one year	9,770,000	400,000	1,840,000	12,010,000	-
Total liabilities	12,423,808	1,600,000	2,477,212	16,501,020	21,823
Net assets					
Invested in capital assets, net of related debt	1,472,651	-	48,394	1,521,045	-
Restricted by statute	-	-	666,663	666,663	-
Unrestricted	1,295,622	126,783	450,717	1,873,122	24,375
Total net assets	\$ 2,768,273	\$ 126,783	\$ 1,165,774	\$ 4,060,830	\$ 24,375

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Enterprise Funds				Internal Service
	2005				Self Insurance
	Medical Care Facility	Delinquent Tax Revolving	Nonmajor Funds	Totals	
Operating revenue					
Charges for services	\$ 10,816,547	\$ 81,483	\$ 965,446	\$ 11,863,476	\$ -
Refunds and reimbursements	256,625	-	5,887	262,512	-
Other operating revenue	1,963,669	-	327,281	2,290,950	48,534
Total operating revenue	13,036,841	81,483	1,298,614	14,416,938	48,534
Operating expense					
Depreciation expense	290,505	-	33,019	323,524	-
Cost of services	12,275,759	47,644	1,131,135	13,454,538	38,952
Total operating expense	12,566,264	47,644	1,164,154	13,778,062	38,952
Operating income (loss)	470,577	33,839	134,460	638,876	9,582
Non-operating revenue (expenses)					
Property tax revenue	660,288	-	-	660,288	-
Gain (loss) on disposal of capital assets	(135,867)	-	-	(135,867)	-
Interest and rentals	78,965	92,946	231,413	403,324	-
Interest expense	(148,133)	(2)	(52,242)	(200,377)	-
Total non-operating revenue (expenses)	455,253	92,944	179,171	727,368	-
Income (loss) before transfers	925,830	126,783	313,631	1,366,244	9,582
Transfers in (out)					
Transfers (out)	-	-	(450,000)	(450,000)	-
Total transfers	-	-	(450,000)	(450,000)	-
Change in net assets	925,830	126,783	(136,369)	916,244	9,582
Net assets, beginning of year	1,842,443	-	1,302,143	3,144,586	14,793
Net assets, end of year	\$ 2,768,273	\$ 126,783	\$ 1,165,774	\$ 4,060,830	\$ 24,375

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Enterprise Funds				Internal Service
	2005 Delinquent				Self Insurance
	Medical Care Facility	Tax Revolving	Nonmajor Funds	Totals	
Cash flows from operating activities					
Cash received from customers	\$ 10,689,775	\$ 2,647,862	\$ 1,940,515	\$ 15,278,152	\$ 48,534
Cash received from Quality Assurance Supplement	1,919,785	-	-	1,919,785	-
Other operating receipts	300,509	-	-	300,509	-
Cash payments to suppliers and employees for goods and services	(12,047,384)	(3,632,234)	(903,859)	(16,583,477)	(18,842)
Net cash provided by (used in) operating activities	862,685	(984,372)	1,036,656	914,969	29,692
Cash flows from noncapital financing activities					
Property tax revenue	660,288	-	-	660,288	-
Contributions and other	43,582	-	-	43,582	-
Proceeds from tax notes	-	2,300,000	-	2,300,000	-
Tax notes redeemed	-	(700,000)	(1,400,000)	(2,100,000)	-
Transfers in	-	-	-	-	-
Transfers (out)	-	-	(450,000)	(450,000)	-
Net cash provided (used) by non-capital financing activities	703,870	1,600,000	(1,850,000)	453,870	-
Cash flows from capital and related financing activities					
Purchase of capital assets	(1,274,373)	-	-	(1,274,373)	-
Interest payments	(148,133)	(2)	(134,468)	(282,603)	-
Principal payments	(170,000)	-	(150,000)	(320,000)	-
Proceeds from long-term debt	8,000,000	-	-	8,000,000	-
Net cash provided (used) by capital and related financing activities	6,407,494	(2)	(284,468)	6,123,024	-
Cash flows from investing activities					
Interest and rental earnings	78,965	92,946	231,413	403,324	-
Amounts collected on leases receivable	-	-	232,226	232,226	-
Net cash provided by investing activities	78,965	92,946	463,639	635,550	-
Net increase (decrease) in cash and cash equivalents	8,053,014	708,572	(634,173)	8,127,413	29,692
Cash and cash equivalents, beginning of year	465,754	-	1,928,106	2,393,860	16,506
Cash and cash equivalents, end of year	<u>\$ 8,518,768</u>	<u>\$ 708,572</u>	<u>\$ 1,293,933</u>	<u>\$ 10,521,273</u>	<u>\$ 46,198</u>

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2006

	2005 Delinquent				Internal Service
	Medical Care Facility	Tax Revolving	Nonmajor Funds	Totals	Self Insurance
Cash flows from operating activities					
Operating income (loss)	\$ 470,577	\$ 33,839	\$ 134,460	\$ 638,876	\$ 9,582
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	290,505	-	33,019	323,524	-
(Increase) decrease in:					
Taxes receivable	-	1,914,197	871,810	2,786,007	-
Accounts receivable	(126,772)	(174)	853	(126,093)	-
Due from other governments	-	-	-	-	-
Inventory	-	-	-	-	-
Prepaid expenses	(112,624)	-	1,214	(111,410)	-
Increase (decrease) in:					
Accounts payable	599,973	(2,932,234)	(4,700)	(2,336,961)	20,110
Accrued expenses	(258,974)	-	-	(258,974)	-
Net cash provided (used) by operating activities	<u>\$ 862,685</u>	<u>\$ (984,372)</u>	<u>\$ 1,036,656</u>	<u>\$ 914,969</u>	<u>\$ 29,692</u>

Non-cash transactions

There were no non-cash transactions during the fiscal year.

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2006

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 378,326</u>
Liabilities	
Due to other governments	128,935
Undistributed receipts	<u>249,391</u>
Total liabilities	<u>\$ 378,326</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2006

	Drain Commission	Road Commission	Total
Assets			
Cash and cash equivalents	\$ 464,301	\$ 732,846	\$ 1,197,147
Special assessments receivable	302,774	-	302,774
Receivables, net	6,718	788,456	795,174
Prepaid items and other assets	-	696,864	696,864
Capital assets:			
Capital assets not being depreciated	-	4,309,724	4,309,724
Capital assets being depreciated, net	845,024	24,092,370	24,937,394
Total assets	1,618,817	30,620,260	32,239,077
Liabilities			
Accounts payable and accrued expenses	-	287,995	287,995
Notes payable (short term)	-	225,466	225,466
Advances from primary government	357,967	-	357,967
Long-term liabilities:			
Due within one year	23,304	70,000	93,304
Due in more than one year	11,000	278,945	289,945
Total liabilities	392,271	862,406	1,254,677
Net assets			
Invested in capital assets, net of related debt	842,220	28,402,094	29,244,314
Unrestricted	384,326	1,355,760	1,740,086
Total net assets	\$ 1,226,546	\$ 29,757,854	\$ 30,984,400

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2006

	Drain Commission	Road Commission	Total
Expenses			
County Drains	\$ 456,955	\$ -	\$ 456,955
County Roads	-	6,560,348	6,560,348
Total expenses	456,955	6,560,348	7,017,303
Program revenues			
Charges for services	146,782	1,632,303	1,779,085
Operating grants and contributions	304,657	5,236,028	5,540,685
Capital grants and contributions	-	-	-
Total program revenues	451,439	6,868,331	7,319,770
Net revenue	(5,516)	307,983	302,467
General revenues			
Unrestricted investment earnings	12,930	41,991	54,921
Change in net assets	7,414	349,974	357,388
Net assets, beginning of year	1,219,132	29,407,880	30,627,012
Net assets, end of year	\$ 1,226,546	\$ 29,757,854	\$ 30,984,400

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

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Notes to the Financial Statements

For the Year Ended December 31, 2006

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COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

A. Reporting entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units

A blended component unit is a legally separate entity from the local governmental unit, but is so intertwined with the Unit that it is, in substance, the same as the local governmental unit. It is reported as part of the local governmental unit and blended into the appropriate fund types.

Hillsdale County Medical Care Facility

The Hillsdale County Medical Care Facility provides skilled long-term care to residents of the County and is not considered legally separate from the County; therefore, it has been included in the County's basic financial statements as an Enterprise Fund. The complete financial statements may be obtained by contacting:

Hillsdale County Medical Care Facility
140 W. Mechanic Street
Hillsdale, MI 49242
(517) 439-9341

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Building Authority

The Hillsdale County Building Authority is governed by a five-member board appointed by the Hillsdale County Board of Commissioners. Although it is legally separate from Hillsdale County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Department of Public Works

Pursuant to Act 185 of 1957 (MCL 123.732, as amended) the County entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the County Board of Commissioners.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the government-wide financial statements. The discretely presented component unit is an entity that is legally separate from Hillsdale County, but for which the County is financially accountable, or its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

Hillsdale County Road Commission

The County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Hillsdale County Drain Commission

Each of the drainage districts established pursuant to the Drain Code of 1956 are separate legal entities, with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property, etc. The statutory drainage board of Chapter 20 (MCL 280.461 et seq.) drainage districts consists of the drain commissioners, the chairperson of the county board of commissioners, and one other member of the board of commissioners. The statutory drainage board of Chapter 5 (MCL 280.101 et seq.) and Chapter 6 (MCL 280.121 et seq.) drainage districts consists of the State Director of Agriculture and the drain commissioners of each county involved in the project. The county drain commissioner has sole responsibility to administer the drainage district established pursuant to Chapter 3 (MCL 280.51 et seq.) and Chapter 4 (MCL 280.71 et seq.) of the Drain Code. The drainage board or drain commissioners, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the county board of commissioners. The full faith and credit of the County may be given for the debt of the drainage district. There is created for each project petitioned for under the provisions of the Chapter 21 (MCL 280.511 et seq.) drainage districts, an augmented drainage board to consist of the members of the drainage board together with the chairman of the board of supervisors and the chairman of the board of county auditors of each county involved. The statutory drainage board of Chapter 8 (MCL 280.191 et seq.) drainage districts consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

The Hillsdale County Road Commission has a separately issued audit report. Complete financial statements of the component unit can be obtained from its respective administrative offices or from the Clerk's Office:

Hillsdale County Road Commission
1919 Hudson Road
Hillsdale, Michigan 49242

Related Organizations

LifeWays

Hillsdale County and Jackson County entered into an agreement pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205), to create the Jackson-Hillsdale Mental Health Authority, which later became known as "LifeWays". LifeWays is a legally separate organization established to provide mental health services to residents of the counties.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

It is governed by a twelve (12) member board, including four (4) from Hillsdale County and eight (8) from Jackson County. The County's accountability does not extend beyond this representation and making these appointments. The board may borrow money and issue bonds pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205). LifeWays indemnifies and holds harmless the participating counties from all claims and liabilities.

Hillsdale County's appropriation to LifeWays for the calendar year ended December 31, 2006 was \$ 23,357.

Branch Hillsdale St Joseph District I Health Department

Hillsdale County participates jointly with Branch and St. Joseph Counties in the operation of the Branch, Hillsdale, St. Joseph District I Health Department. All of the financial operations of the District Health Department are recorded in the records of Branch County. It is governed by a seven (7) member board, two (2) from Hillsdale County, two (2) from Branch County, and three (3) from St. Joseph County. The funding formula approved by the members of the county boards of commissioners is based pro rata on each county's population. The current funding formula approved by the District Health Board requires Hillsdale, Branch and St. Joseph Counties to provide 30.1, 29.6, and 40.3 percent, respectively. Hillsdale County's appropriation to the District Health Department for the calendar year ended December 31, 2006, was \$ 301,105, which consists of \$ 281,708 funding formula and \$ 19,397 cigarette tax.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, State revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The *revenue sharing reserve fund* accounts for accelerated property tax collections which are held for the replacement of future State shared revenues.

The *Senior Center debt service fund* is used to account for financial resources to refund the debt of the Senior Citizens Center.

The County reports the following major proprietary funds:

The *Medical Care Facility fund* is used to account for the operation of the Hillsdale County Medical Care Facility. Financing is provided through charges for services, Medicare and Medicaid reimbursements, and general fund appropriations.

The *2005 delinquent tax revolving fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing units within the County, and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the County's issuance of debt (to provide cash flow for the purchase of the taxes) and for the resulting debt service payments.

Additionally, the County reports the following fund types:

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

Debt service funds account for the servicing of general long-term debt not being financed by proprietary funds.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs, including programs for a cemetery, the MCF, and a trust.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The *internal service fund* accounts for operations that provides the accounting for workers' compensation insurance to other departments or agencies of the County on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and equity

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: a) short-term investments are reported at cost, which approximates fair value; b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; c) investments that do not have established market values are reported at estimated fair value; and d) cash deposits are reported at carrying amount, which reasonably approximates fair value.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

2. *Receivables and payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds or component units are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

3. *Inventories and prepaid items*

Inventories are valued primarily at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Infrastructure for the Road Commission and Drain Commission component units has been capitalized back to 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Equipment	10-25
Vehicles	5-10

Capital assets in the Road Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings and		
Improvements	Straight-line	40
Road equipment	Sum of years-digits	5-8
Other equipment	Straight-line	5-8
Infrastructure	Straight-line	8-50

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Capital assets in the Drain Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings	Straight-line	25
Equipment	Straight-line	5-10
Infrastructure	Straight-line	50

5. *Compensated absences*

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, upon termination of employment, individual employees have vested rights to receive payment or unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. Vacation pay that has matured, such as due to employee resignations or retirements, is reported as an expenditure and a fund liability of the governmental fund that will pay it for employees retiring.

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end.

The Finance Committee receives the preliminary budget requests from departmental heads in September. A proposed operating budget for the fiscal year beginning the following January 1 is submitted to the Board of Commissioners in October. Public hearings are conducted to obtain taxpayer comments. The budget is formally adopted by resolution at the December Board of Commissioners' meeting. Any revisions to the budget must be approved by the Board of Commissioners. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners during the year.

The legal level of budgetary control is the activity level for the General Fund and the function level for the special revenue funds. The Board of Commissioners made several supplemental budgetary appropriations during the year which were not considered material.

Encumbrance accounting is not employed by the County because it is presently considered unnecessary to reasonably assure budgetary control.

B. Excess of expenditures over appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the County were adopted on an activity level for the general fund and a functional level basis for the special revenue funds.

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General and Revenue Sharing Reserve Funds.

C. Fund deficit

At December 31, 2006, there is a deficit in the Drain Special Assessment fund of the Drain Commission component unit in the amount of \$41,255. The County plans to eliminate this deficit by the collection of future special assessments.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements is as follows:

Cash on hand	\$ 6,390
Carrying amount of deposits	10,076,952
Carrying amount of investments	<u>5,879,618</u>
	<u>\$ 15,962,960</u>

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 14,387,487</u>	<u>\$ 1,197,147</u>	<u>\$ 378,326</u>	<u>\$ 15,962,960</u>

Deposits and investments

The County chooses to disclose its investments by specific identification. As of year end, the County had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Monarch Bank money markets	n/a	\$ 259,557	n/a
Federal Nat. Mtg. Assn. note	06/08/07	299,955	S&P – AAAm
Federal Nat. Mtg. Assn. note	12/30/08	133,139	S&P – AAAm
Federal Nat. Mtg. Assn. note	10/24/14	100,000	S&P – AAAm
Federal Nat. Mtg. Assn. note	03/13/09	99,750	S&P – AAAm
Federal Nat. Mtg. Assn. note	12/15/09	99,320	S&P – AAAm
Federal Nat. Mtg. Assn. note	07/15/13	200,000	S&P – AAAm
Federal Nat. Mtg. Assn. note	02/09/07	297,080	S&P – AAAm
Federal Nat. Mtg. Assn. note	04/26/07	248,067	S&P – AAAm
Federal Nat. Mtg. Assn. note	12/17/09	199,637	S&P – AAAm
Federal Nat. Mtg. Assn. note	06/18/07	295,220	S&P – AAAm
G.E. Commercial Paper	01/11/07	<u>3,647,893</u>	S&P – A-1+
		<u>\$ 5,879,618</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities for each investment are identified above for investments held at year end.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$7,616,593 of the County's bank balance of \$10,056,947 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The County's investment policy limits investments to those types of securities allowed by state statutes as listed in Note I above and pre-qualifies the financial institutions, broker/dealers, intermediaries and advisors with which the County does business in accordance with this policy. None of the investments above are subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The County's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year- end are reported above.

B. Receivables

Receivables in the governmental activities are as follows:

Taxes	\$ 3,175,003
Accounts	276,332
Loans receivable	2,065,000
Due from other governments	119,708
Advance to component unit	357,967
Interest	<u>16,375</u>
	<u>\$ 6,010,385</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

\$1,990,000 of the loans receivable and \$357,967 of the advance to component unit is not expected to be collected within one year.

Receivables in the business-type activities are as follows:

Taxes	\$ 1,972,765
Accounts	1,417,420
Due from other governments	2,030,000
Interest	<u>10,319</u>
	<u>\$ 5,430,504</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the deferred revenue in the general fund and unearned revenue reported in the government-wide financial statement for governmental activities represent uncollected taxes from the Winter 2006 tax levy that are earmarked for the County fiscal year of 2007.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended December 31, 2006 was as follows:

Primary government

	January 1, 2006	Additions	Deletions	December 31, 2006
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 330,003	\$ -	\$ -	\$ 330,003
Capital assets being depreciated:				
Buildings and improvements	5,396,229	-	-	5,396,229
Vehicles and equipment	1,036,531	100,285	67,202	1,069,614
Total capital assets being depreciated	6,432,760	100,285	67,202	6,465,843
Less accumulated depreciation for:				
Buildings and improvements	(2,320,065)	(103,534)	-	(2,423,599)
Vehicles and equipment	(700,882)	(66,968)	63,002	(704,848)
Total accumulated depreciation	(3,020,947)	(170,502)	63,002	(3,128,447)
Total capital assets being depreciated, net	3,411,813	(70,217)	4,200	3,337,396
Governmental activities capital assets, net	\$ 3,741,816	\$ (70,217)	\$ (4,200)	\$ 3,667,399
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 30,783	\$ 1,205,900		\$ 1,236,683
Capital assets being depreciated:				
Land improvements	29,524	-	-	29,524
Buildings and improvements	6,654,912	67,331	142,258	6,579,985
Vehicles and equipment	1,196,470	1,142	-	1,197,612
Total capital assets being depreciated	7,880,906	68,473	142,258	7,807,121
Less accumulated depreciation for:				
Land improvements	(29,524)	-	-	(29,524)
Buildings and improvements	(3,275,371)	(235,116)	6,391	(3,504,096)
Vehicles and equipment	(954,616)	(88,408)	-	(1,043,024)
Total accumulated depreciation	(4,259,511)	(323,524)	6,391	(4,576,644)
Total capital assets being depreciated, net	3,621,395	(255,051)	135,867	3,230,477
Business-type activities capital assets, net	\$ 3,652,178	\$ 950,849	\$ 135,867	\$ 4,467,160

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the County as follows:

Governmental activities:

General government	\$ 56,795
Judicial	4,080
Public safety	64,827
Health and welfare	<u>44,800</u>

Total \$ 170,502

Business-type activities:

Medical Care Facility	\$ 292,980
E-911 Emergency	<u>33,019</u>

Total \$ 323,524

Component Unit – Drain Commission

Activity for the Drain Commission for the year ended December 31, 2006, was as follows:

	January 1, 2006	Additions	Deletions	December 31, 2006
Capital assets being depreciated:				
Buildings	\$ 135,000	\$ -	\$ -	\$ 135,000
Equipment	550,224	73,782	-	624,006
Infrastructure	458,635	-	-	458,635
Total capital assets being depreciated	<u>1,143,859</u>	<u>73,782</u>	<u>-</u>	<u>1,217,641</u>
Less accumulated depreciation for:				
Buildings	(37,800)	(5,400)	-	(43,200)
Equipment	(246,873)	(58,180)	-	(305,053)
Infrastructure	(15,192)	(9,172)	-	(24,364)
Total accumulated depreciation	<u>(299,865)</u>	<u>(72,752)</u>	<u>-</u>	<u>(372,617)</u>
Total capital assets being depreciated, net	<u><u>\$ 843,994</u></u>	<u><u>\$ 1,030</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 845,024</u></u>

Depreciation expense was charged to the Public Works Function in the year 2006.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Component Unit – Road Commission

Activity for the Road Commission for the year ended December 31, 2006, was as follows:

	Balance January 1, 2006	Additions	Deductions	Adjustments and Reclassifications	Balance December 31, 2006
Capital assets not being depreciated:					
Land	\$ 68,434	\$ -	\$ -	\$ -	\$ 68,434
Land improvements - infrastructure	3,932,213	309,077	-	-	4,241,290
Subtotal	4,000,647	309,077	-	-	4,309,724
Capital assets being depreciated:					
Buildings and improvements	2,029,524	-	-	(945)	2,028,579
Road equipment	5,596,712	468,741	532,927	945	5,533,471
Shop equipment	95,495	4,859	962	1,221	100,613
Office equipment	136,346	12,639	-	(1,692)	147,293
Engineers' equipment	56,376	3,100	-	471	59,947
Yard and storage	426,965	26,155	16,585	-	436,535
Depleteable assets	65,400	-	-	-	65,400
Infrastructure	41,291,298	1,317,595	-	-	42,608,893
Subtotal	49,698,116	1,833,089	550,474	-	50,980,731
Accumulated depreciation and depletion					
Buildings and improvements	465,090	62,361	-	(103)	527,348
Equipment	4,514,164	545,055	501,078	103	4,558,244
Depleteable assets	62,156	-	-	-	62,156
Infrastructure	19,991,628	1,748,985	-	-	21,740,613
Total accumulated depreciation	25,033,038	2,356,401	501,078	-	26,888,361
Total capital assets being depreciated - net	24,665,078	(523,312)	49,396	-	24,092,370
Governmental activities capital assets - net	\$ 28,665,725	\$ (214,235)	\$ 49,396	\$ -	\$ 28,402,094

D. Accounts payable

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts payable	\$ 217,129
Accrued payroll, expenses and deposits	92,749
Due to other governments	30,000
Accrued interest on long-term debt	<u>26,358</u>
Total	<u>\$ 366,236</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts payable	\$ 844,349
Accrued payroll, expenses and deposits	770,330
Due to other governments	<u>32,891</u>
Total	<u>\$ 1,647,570</u>

E. Interfund receivables, payables and transfers

The County has interfund balances between its funds and component units. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The advances from the General Fund to the Drain and Lake Level Revolving Funds of the Drain Component Unit are used to provide cash flow to those funds until reimbursements from drain assessments are collected.

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 357,967	\$ -
Drain revolving		339,488
Lake level revolving	<u>-</u>	<u>18,479</u>
	<u>\$ 357,967</u>	<u>\$ 357,967</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

For the year ended December 31, 2006, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 1,290,835	\$ 661,487
Revenue Sharing Reserve	-	840,835
Nonmajor Governmental Funds	686,818	25,331
Nonmajor Proprietary Funds	-	450,000
	<u>\$ 1,977,653</u>	<u>\$ 1,977,653</u>

F. Long-term debt

Primary government

Governmental activities

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Governmental activities:				
County Building Authority – Buildings	\$95,000 to 170,000	5.25 to 5.70%	2016	<u>\$1,305,000</u>
Capital Improvement Senior Center Bldng	\$75,000 to 160,000	4.25 to 4.40%	2025	<u>\$2,065,000</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

Year Ended December 31	Principal	Interest	Total
2007	\$ 170,000	\$ 156,554	\$ 326,554
2008	185,000	148,272	333,272
2009	190,000	139,307	329,307
2010	200,000	129,967	329,967
2011	210,000	119,861	329,861
2012-2016	1,225,000	431,186	1,656,186
2017-2021	600,000	188,751	788,751
2022-2025	590,000	52,030	642,030
	\$ 3,370,000	\$ 1,365,928	\$ 4,735,928

The County has entered into a capital lease transaction in 2006 in order to finance the purchase of 4 vehicles. The lease calls for annual payments of \$29,895 to \$5,108 through the year 2009, plus interest of 5.8%.

Annual payments to maturity are as follows:

Year Ended December 31	Principal Amount	Interest Amount
2007	\$ 29,895	\$ 3,794
2008	31,592	2,099
2009	5,108	307
Total	\$ 66,595	\$ 6,200

Business-type activities

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Business-type activities:				
County Building Authority – Medical Care Facility Building	\$105,000 to 185,000	4.60 to 4.625%	2018	<u>\$ 1,690,000</u>
Medical Care Facility Building	\$150,000 to 695,000	4.00%	2026	<u>\$ 8,000,000</u>
Medical Care Facility Building	\$75,000 to 90,000	3.0 to 3.5%	2011	<u>\$ 410,000</u>
Sanitary Sewer – City of Litchfield	\$30,000 to 130,000	2.00%	2014	<u>\$ 915,000</u>
Water Supply System – Village of Jonesville	\$70,000 to 135,000	4.85 to 5.70%	2015	<u>\$ 1,115,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 520,000	\$ 486,811	\$ 1,006,811
2008	610,000	467,571	1,077,571
2009	675,000	444,146	1,119,146
2010	700,000	417,674	1,117,674
2011	740,000	389,929	1,129,929
2012-2016	3,200,000	1,523,823	4,723,823
2017-2021	2,605,000	913,781	3,518,781
2022-2026	3,080,000	385,200	3,465,200
	<u>\$ 12,130,000</u>	<u>\$ 5,028,934</u>	<u>\$ 17,158,935</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Delinquent tax notes. The government issues delinquent tax notes to finance the purchase of delinquent real property taxes receivable from each taxing district in the County. These notes are reported in the proprietary funds (i.e., Delinquent Tax Revolving Funds) as they are expected to be repaid from proprietary fund revenues. Principal and interest payments are predicated upon actual collections of delinquent property taxes, which are subject to collection over a period not to exceed three years. Delinquent tax notes outstanding at December 31, 2006, are as follows:

<u>Series</u>	<u>Amount</u>
2005 -\$2,100,000 G.O. Limited Tax Notes payable, dated June 21, 2005, interest at 4.00 – 4.125%	\$ 400,000
2006 - \$2,300,000 G.O. Limited Tax Notes payable, dated June 21, 2006, interest at 5.37 – 5.55%	<u>1,600,000</u>
	<u>\$2,000,000</u>

Annual debt service requirements to maturity are as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,600,000	\$ 75,137	\$ 1,675,137
2008	<u>400,000</u>	<u>16,650</u>	<u>412,250</u>
	<u>\$ 2,000,000</u>	<u>\$ 91,787</u>	<u>\$ 2,091,787</u>

Drain Commission component unit

Notes payable. The Drain Commission issues notes payable for the construction or major maintenance of drainage and lake level districts. Such notes are repaid by local property owners.

	<u>Due</u>	<u>Installments</u>	<u>Interest Rate</u>	<u>Amount</u>
Various drain construction and equipment notes	Various	\$23,304 to \$11,000	2.07 to 3.46%	<u>\$ 34,304</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for drain notes are as follows:

Year Ended December 31	Principal	Interest	Total
2007	\$ 23,304	\$ 761	\$ 24,065
2008	11,000	381	11,381
	\$ 34,304	\$ 1,142	\$ 35,446

Road Commission component unit

Notes payable. During the year , the last annual installment was paid due on a lease purchase agreement in the amount of \$58,412.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Changes in long-term debt.

Long-term debt liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental activities					
1996 Building Authority Bonds	\$ 1,395,000	\$ -	\$ 90,000	\$ 1,305,000	\$ 95,000
2005 Capital Improvement Bonds	2,140,000	-	75,000	2,065,000	75,000
Capital leases	-	100,285	33,960	66,325	29,895
Compensated absences	355,534	9,230	-	364,764	35,000
	<u>\$ 3,890,534</u>	<u>\$ 109,515</u>	<u>\$ 198,960</u>	<u>\$ 3,801,089</u>	<u>\$ 234,895</u>
Business - type activities					
Bonds:					
1998 Building Authority -MCF	\$ 1,790,000	\$ -	\$ 100,000	\$ 1,690,000	\$ 105,000
2006 Building Authority -MCF	-	8,000,000	-	8,000,000	\$ 150,000
2005 Capital Improvement - MCF	480,000	-	70,000	410,000	75,000
BPW #1 - Litchfield	1,030,000	-	115,000	915,000	120,000
BPW #6 - Jonesville	1,150,000	-	35,000	1,115,000	70,000
Total bonds	<u>4,450,000</u>	<u>8,000,000</u>	<u>320,000</u>	<u>12,130,000</u>	<u>520,000</u>
Notes:					
GO Limited Tax Notes 2004	400,000	-	400,000	-	-
GO Limited Tax Notes 2005	1,400,000	-	1,000,000	400,000	400,000
GO Limited Tax Notes 2006	-	2,300,000	700,000	1,600,000	1,200,000
Total Notes	<u>1,800,000</u>	<u>2,300,000</u>	<u>2,100,000</u>	<u>2,000,000</u>	<u>1,600,000</u>
Total Business - type activities	<u>\$ 6,250,000</u>	<u>\$ 10,300,000</u>	<u>\$ 2,420,000</u>	<u>\$ 14,130,000</u>	<u>\$ 2,120,000</u>
Drain Commission component unit					
Caterpillar Tractor	\$ -	\$ 32,849	\$ 30,045	\$ 2,804	\$ 2,804
Murray Joint Intercounty	24,850	-	24,850	-	-
Walker Interstate Drain	33,000	-	11,000	22,000	11,000
Doty-Chamberlain	19,000	-	9,500	9,500	9,500
	<u>\$ 76,850</u>	<u>\$ 32,849</u>	<u>\$ 75,395</u>	<u>\$ 34,304</u>	<u>\$ 23,304</u>
Road Commission component unit					
2004 Excavator	\$ 58,412	\$ -	\$ 58,412	\$ -	\$ -
Compensated absences	354,319	-	5,374	348,945	70,000
	<u>\$ 412,731</u>	<u>\$ -</u>	<u>\$ 63,786</u>	<u>\$ 348,945</u>	<u>\$ 70,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk Management / Self-Insurance Program

The County is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The County has purchased commercial insurance for employee medical benefit claims, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in a risk pool at Employer's Reinsurance Corporation for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (risk pool) program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, and the Authority uses the premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the County. As of December 31, 2006, the County estimates that its funds on deposit with the Authority are sufficient to cover any outstanding claims. Accordingly, no liability has been recorded.

Workers' Compensation. The government maintains a self-insurance program for workers' compensation coverage which is accounted for in an internal service fund (i.e., the Self Insurance fund). The program is administered by a third party administrator who conducts safety inspections and provides claims review and processing services. Premiums are paid into the internal service fund by all other funds based on payrolls and job classifications and are available to pay claims, claim reserves, excess coverage and administrative costs.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$350,000 subject to an annual aggregate limit of \$768,232. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Changes in the balances of claims liabilities during the past two years are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

	<u>2006</u>	<u>2005</u>
Unpaid claims, beginning of year	\$ 1,713	\$ 6,404
Incurred claims (including IBNR's)	38,952	23,511
Claim payments	<u>(18,842)</u>	<u>(28,202)</u>
Unpaid claims, end of year	<u>\$ 21,823</u>	<u>\$ 1,713</u>

Road Commission

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Hillsdale County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

B. Property taxes

Public Act 357 of 2006 provides a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund known as the Revenue Sharing Reserve Fund.

Property taxes are levied on the assessed taxable value of the property as established by local units, accepted by the County and equalized under State statute at approximately 50% of the current estimated market value. In March 1994, Michigan voters approved Proposal A, which limits annual increases in assessed values to the lesser of 5% or the rate of inflation with assessed value reverting to 50% of true cash value when the property is sold.

The assessed and taxable value of real and personal property for the December 1, 2005 levy, for which revenue was recognized in fiscal 2006, was \$1,204,598,000. The general operating tax rate for this levy was at the maximum rate of 4.9852 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The County also had a voter approved tax of .2408 mills for ambulance services, .4968 mills for senior services, and .5786 mills for the Medical Care Facility.

The assessed and taxable value of real and personal property for the July 1, 2006 levy, for which revenue was recognized for general operations only in fiscal 2006, was \$1,250,346,000. The general operating tax rate for this levy was at the maximum rate of 4.9552 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution.

By agreement with various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent taxes receivable.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Employee retirement systems and plans

Defined Contribution Pension Plan - Primary Government

The County provides pension benefits to all of its full-time employees (except for the Sheriff's Department) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Hillsdale County Retirement Fund, the County contributes 6.5 percent for all the general County employees' gross earnings and 4 percent for all Medical Care Facility employees. Employees contribute 2-10 percent of earnings. In accordance with these requirements, the County contributed \$486,134 for the year ended December 31, 2006 and employees contributed \$403,707.

The Hillsdale County Board of Commissioners established both plans and may amend them and the related contribution requirements, subject to the County's various collective bargaining agreements. The plans are administered and the assets are in the custody of third-party insurance companies.

Defined Benefit Pension Plan – Primary Government

Plan Description - MERS

Employees of the Sheriff Department, except the Sheriff and Under sheriff, are eligible to participate in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917, or by calling (800) 767-6377.

Funding Policy

The County is required to contribute at an actuarially determined rate; the current rate for the County is 7.5 to 8% of annual covered payroll for each employee group. All participating employees are required to contribute between 2% and 10% percent of their annual salary. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County Board of Commissioners, depending on the MERS contribution program adopted by the County.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

For the year ended December 31, 2006, the annual pension cost of \$136,951 was equal to the required and actual contributions of the County. The required contributions were determined as part of the December 31, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year after retirement for certain retirees depending on the benefit option selected. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2005.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$ 130,752	100%	\$ -
12/31/05	135,768	100	-
12/31/06	136,951	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/04	\$ 1,308,037	\$3,575,849	\$ 2,267,812	37%	\$1,745,556	130%
12/31/05	1,590,906	3,963,875	2,372,969	40	1,757,755	135
12/31/06	1,881,418	4,219,255	2,337,837	45	1,784,608	131

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Defined Benefit Pension Plan - Road Commission

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 6.15% for Association members and 10.72% for non-Association members. Certain employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission. In addition, Road Commission Association employees are currently required to contribute 5.3% of annual compensation, and non-Association employees are required to contribute 9.9% of annual compensation.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$151,739 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2005, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$123,395	100%	\$ -
12/31/05	146,018	100	-
12/31/06	151,739	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/03	\$ 3,364,902	\$ 4,649,366	\$ 1,284,464	72%	\$ 1,871,340	69%
12/31/04	3,660,821	6,055,828	2,395,007	60	1,904,720	126
12/31/05	4,028,654	6,292,619	2,263,965	64	1,893,260	120

D. Postemployment Benefits

The County provides 50% of the cost of health insurance benefits for retired employees of two union groups meeting certain service requirements. Costs incurred by the County during 2006 amounted to \$23,340 among 4 retirees.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the County's financial statements for future reporting periods.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

E. Contingent Liabilities

Amounts received or receivable from grantor agencies and health care intermediaries including Medicare and Medicaid are subject to audit and adjustment by the grantor agencies or intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors or intermediaries cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government and its component units, individually or jointly, are a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

F. Restatement

There was a restatement (reduction) in beginning fund balance of the general fund and governmental activities net assets of \$22,623 due to the repayment to a Township of Industrial Facility taxes collected by the County in 2005.

* * * * *

COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court	Register of Deeds Automation
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 26,078	\$ 4,185	\$ 28,829	\$ 4,934	\$ 38,015	\$ 201,407
Accounts receivable	-	-	-	-	-	-
Prepaid expenditures	525	-	-	-	-	-
Interest receivable	96	-	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 26,699	\$ 4,185	\$ 28,829	\$ 4,934	\$ 38,015	\$ 201,407
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 9,400	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	1,202	-	-	-	-	-
Due to other governments	-	-	-	-	-	-
Total liabilities	10,602	-	-	-	-	-
Fund balances						
Unreserved:						
Undesignated	16,097	4,185	28,829	4,934	38,015	201,407
Total fund balances	16,097	4,185	28,829	4,934	38,015	201,407
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 26,699	\$ 4,185	\$ 28,829	\$ 4,934	\$ 38,015	\$ 201,407

Special Revenue

Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust
\$ 2,223	\$ 1,450	\$ 14,500	\$ 26,289	\$ 22,352	\$ 42,400	\$ 138,755	\$ 22,725	\$ 1,043
-	-	-	545	12,728	1,167	7,033	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	179	-	-
\$ 2,223	\$ 1,450	\$ 14,500	\$ 26,834	\$ 35,080	\$ 43,567	\$ 145,967	\$ 22,725	\$ 1,043
\$ 1,235	\$ -	\$ 519	\$ -	\$ -	\$ -	\$ 18,993	\$ 556	\$ -
-	-	-	-	-	-	6,878	-	-
-	-	-	-	30,000	-	-	-	-
1,235	-	519	-	30,000	-	25,871	556	-
988	1,450	13,981	26,834	5,080	43,567	120,096	22,169	1,043
988	1,450	13,981	26,834	5,080	43,567	120,096	22,169	1,043
\$ 2,223	\$ 1,450	\$ 14,500	\$ 26,834	\$ 35,080	\$ 43,567	\$ 145,967	\$ 22,725	\$ 1,043

continued...

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds (Concluded)
December 31, 2006

	<u>Special Revenue</u>				<u>Debt Service</u>
	<u>Building Inspection</u>	<u>Homeland Security</u>	<u>GIS/Mapping Technology</u>	<u>Drug Offender</u>	<u>DHS Building Authority Debt Service</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 114,350	\$ -	\$ 2,512	\$ 27,793	\$ 465
Accounts receivable	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Interest receivable	-	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 114,350</u>	<u>\$ -</u>	<u>\$ 2,512</u>	<u>\$ 27,793</u>	<u>\$ 465</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 980	\$ -	\$ -	\$ 1,775	\$ -
Accrued liabilities	2,829	-	-	-	-
Due to other governments	-	-	-	-	-
Total liabilities	<u>3,809</u>	<u>-</u>	<u>-</u>	<u>1,775</u>	<u>-</u>
Fund balances					
Unreserved:					
Undesignated	<u>110,541</u>	<u>-</u>	<u>2,512</u>	<u>26,018</u>	<u>465</u>
Total fund balances	<u>110,541</u>	<u>-</u>	<u>2,512</u>	<u>26,018</u>	<u>465</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 114,350</u>	<u>\$ -</u>	<u>\$ 2,512</u>	<u>\$ 27,793</u>	<u>\$ 465</u>

Capital Projects		Permanent Funds				
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	Total	
\$ 811,530	\$ 6,357	\$ 236	\$ 2,747	\$ 47	\$ 1,541,222	
-	-	-	-	-	21,473	
-	-	-	-	-	525	
2,001	-	-	15	-	2,291	
<u>\$ 813,531</u>	<u>\$ 6,357</u>	<u>\$ 236</u>	<u>\$ 2,762</u>	<u>\$ 47</u>	<u>\$ 1,565,511</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,458	
-	-	-	-	-	10,909	
-	-	-	-	-	30,000	
-	-	-	-	-	74,367	
813,531	6,357	236	2,762	47	1,491,144	
813,531	6,357	236	2,762	47	1,491,144	
<u>\$ 813,531</u>	<u>\$ 6,357</u>	<u>\$ 236</u>	<u>\$ 2,762</u>	<u>\$ 47</u>	<u>\$ 1,565,511</u>	

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2006

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court	Register of Deeds Automation	Drug Forfeiture
Revenue							
Property taxes	\$ -	\$ 275,150	\$ -	\$ 567,636	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-
Fines and forfeits	-	-	3,588	-	20,130	61,415	-
Charges for services	39,738	-	-	-	-	-	-
Refunds and reimbursements	-	-	-	-	-	-	-
Interest and rentals	1,321	-	-	-	-	-	-
Other revenue	25,000	-	-	-	-	-	10,617
Total revenue	66,059	275,150	3,588	567,636	20,130	61,415	10,617
Expenditures							
Current:							
Judicial	-	-	-	-	10,274	-	-
General government	-	-	-	-	-	14,938	-
Public safety	-	-	875	-	-	-	14,456
Health and welfare	-	271,702	-	573,121	-	-	-
Recreation and culture	63,945	-	-	-	-	-	-
Debt service							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	63,945	271,702	875	573,121	10,274	14,938	14,456
Revenue over (under) expenditures	2,114	3,448	2,713	(5,485)	9,856	46,477	(3,839)
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Net changes in fund balances	2,114	3,448	2,713	(5,485)	9,856	46,477	(3,839)
Fund balances, beginning of year	13,983	737	26,116	10,419	28,159	154,930	4,827
Fund balances, end of year	\$ 16,097	\$ 4,185	\$ 28,829	\$ 4,934	\$ 38,015	\$ 201,407	\$ 988

Special Revenue

Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	74,761	-	-
-	-	-	-	-	(70)	-	-
6,893	9,500	5,684	233,771	10,614	224,428	-	812
6,893	9,500	5,684	233,771	10,614	299,119	-	812
-	8,868	-	-	-	-	-	-
-	-	-	-	-	-	-	-
8,658	-	634	-	-	-	-	-
-	-	-	298,785	98,283	768,053	53,704	600
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
8,658	8,868	634	298,785	98,283	768,053	53,704	600
(1,765)	632	5,050	(65,014)	(87,669)	(468,934)	(53,704)	212
-	-	-	48,000	56,746	518,585	63,487	-
-	-	-	-	(18,585)	(6,746)	-	-
-	-	-	48,000	38,161	511,839	63,487	-
(1,765)	632	5,050	(17,014)	(49,508)	42,905	9,783	212
3,215	13,349	21,784	22,094	93,075	77,191	12,386	831
\$ 1,450	\$ 13,981	\$ 26,834	\$ 5,080	\$ 43,567	\$ 120,096	\$ 22,169	\$ 1,043

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Governmental Funds (Concluded)
December 31, 2006

	Special Revenue				Debt Service	Capital
	Building Inspection	Homeland Security	GIS/Mapping Technology	Drug Offender	DHS Building Authority Debt Service	Improvement
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	23,340	-	-	-	-
Contributions	-	-	-	-	167,040	-
Fines and forfeits	-	-	-	-	-	-
Charges for services	449,358	-	-	-	-	-
Refunds and reimbursements	8,473	-	-	-	-	-
Interest and rentals	-	-	-	-	28	39,638
Other revenue	-	-	1,759	25,017	-	14,000
Total revenue	457,831	23,340	1,759	25,017	167,068	53,638
Expenditures						
Current:						
Judicial	-	-	-	-	-	-
General government	-	-	-	-	-	31,175
Public safety	407,639	23,340	-	13,416	-	-
Health and welfare	-	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	90,000	-
Interest	-	-	-	-	77,055	-
Total expenditures	407,639	23,340	-	13,416	167,055	31,175
Revenue over (under) expenditures	50,192	-	1,759	11,601	13	22,463
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net changes in fund balances	50,192	-	1,759	11,601	13	22,463
Fund balances, beginning of year	60,349	-	753	14,417	452	791,068
Fund balances, end of year	\$ 110,541	\$ -	\$ 2,512	\$ 26,018	\$ 465	\$ 813,531

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Nonmajor Enterprise Funds
December 31, 2006

	1997	1998	1999	2000	2001	2002
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Assets						
Current assets:						
Cash and cash equivalents	\$ 2,651	\$ 4,104	\$ 45,687	\$ 78,656	\$ 169,828	\$ 261,298
Taxes receivable	5,141	5,576	-	-	84	4,139
Accounts receivable	-	-	-	878	-	-
Current portion of leases receivable	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Total current assets	7,792	9,680	45,687	79,534	169,912	265,437
Noncurrent assets:						
Leases receivable, net of current portion	-	-	-	-	-	-
Capital assets	-	-	-	-	-	-
Total assets	7,792	9,680	45,687	79,534	169,912	265,437
Liabilities						
Current liabilities:						
Accounts payable	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	-	-
Due to other governments	-	-	74	1,163	10,554	11,440
Current portion of long-term debt	-	-	-	-	-	-
Total current liabilities	-	-	74	1,163	10,554	11,440
Long-term liabilities:						
Due in more than one year	-	-	-	-	-	-
Total liabilities	-	-	74	1,163	10,554	11,440
Net assets						
Invested in capital assets	-	-	-	-	-	-
Restricted by statute	-	-	42,343	75,594	164,270	258,472
Unrestricted	7,792	9,680	3,270	2,777	(4,912)	(4,475)
Total net assets	\$ 7,792	\$ 9,680	\$ 45,613	\$ 78,371	\$ 159,358	\$ 253,997

						BPW #2			
2003	2004			Geographic	Townships of	BPW #1	BPW #6		
Delinquent	Delinquent	E-911		Information	Jefferson and	City of	Village of		
Tax Revolving	Tax Revolving	Emergency		Systems	Pittsford	Litchfield	Jonesville	Total	
<hr/>									
\$ 128,268	\$ 508,957	\$ 26,701	\$ 67,001	\$ -	\$ 750	\$ 32	\$ 1,293,933		
9,200	207,138	-	-	-	-	-	231,278		
(6,190)	(3,460)	42,969	-	-	-	-	34,197		
-	-	-	-	-	115,000	35,000	150,000		
4,469	367	348	-	-	-	-	5,184		
135,747	713,002	70,018	67,001	-	115,750	35,032	1,714,592		
<hr/>									
-	-	-	-	-	800,000	1,080,000	1,880,000		
-	-	48,394	-	-	-	-	48,394		
135,747	713,002	118,412	67,001	-	915,750	1,115,032	3,642,986		
<hr/>									
-	-	4,128	-	-	-	-	4,128		
-	-	10,193	-	-	-	-	10,193		
6,200	3,460	-	-	-	-	-	32,891		
-	400,000	-	-	-	120,000	70,000	590,000		
6,200	403,460	14,321	-	-	120,000	70,000	637,212		
<hr/>									
-	-	-	-	-	795,000	1,045,000	1,840,000		
6,200	403,460	14,321	-	-	915,000	1,115,000	2,477,212		
<hr/>									
-	-	48,394	-	-	-	-	48,394		
125,984							666,663		
3,563	309,542	55,697	67,001	-	750	32	450,717		
<hr/>									
\$ 129,547	\$ 309,542	\$ 104,091	\$ 67,001	\$ -	\$ 750	\$ 32	\$ 1,165,774		

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2006

	1997	1998	1999	2000	2001	2002
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Operating revenue						
Charges for services	\$ -	\$ -	\$ -	\$ 227	\$ 275	\$ 289
Refunds and reimbursements	-	-	-	-	-	-
Other operating revenue	-	-	-	-	-	-
Total operating revenue	-	-	-	227	275	289
Operating expense						
Cost of services	-	-	-	(250)	13,475	356
Operating income (loss)	-	-	-	477	(13,200)	(67)
Non-operating revenue (expenses)						
Interest revenue	-	-	-	1	254	409
Interest expense	-	-	-	-	-	-
Total non-operating revenue (expenses)	-	-	-	1	254	409
Income (loss) before transfers	-	-	-	478	(12,946)	342
Transfers						
Transfers out	-	(5,000)	-	(5,000)	(30,000)	(35,000)
Change in net assets	-	(5,000)	-	(4,522)	(42,946)	(34,658)
Net assets, beginning of year	7,792	14,680	45,613	82,893	202,304	288,655
Net assets, end of year	<u>\$ 7,792</u>	<u>\$ 9,680</u>	<u>\$ 45,613</u>	<u>\$ 78,371</u>	<u>\$ 159,358</u>	<u>\$ 253,997</u>

2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 199,879	\$ 112,674	\$ 646,342	\$ 5,760	\$ -	\$ -	\$ -	\$ 965,446
-	-	5,887	-	-	-	-	5,887
193	-	84,412	10,375	75	134,482	97,744	327,281
200,072	112,674	736,641	16,135	75	134,482	97,744	1,298,614
52,298	38,863	788,896	38,131	157	134,484	97,744	1,164,154
147,774	73,811	(52,255)	(21,996)	(82)	(2)	-	134,460
72,019	152,048	6,660	-	-	22	-	231,413
(10,283)	(41,959)	-	-	-	-	-	(52,242)
61,736	110,089	6,660	-	-	22	-	179,171
209,510	183,900	(45,595)	(21,996)	(82)	20	-	313,631
(375,000)	-	-	-	-	-	-	(450,000)
(165,490)	183,900	(45,595)	(21,996)	(82)	20	-	(136,369)
295,037	125,642	149,686	88,997	82	730	32	1,302,143
\$ 129,547	\$ 309,542	\$ 104,091	\$ 67,001	\$ -	\$ 750	\$ 32	\$ 1,165,774

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2006

	1997	1998	1999	2000	2001	2002
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Cash flows from operating activities						
Cash received from customers	\$ -	\$ -	\$ -	\$ 4,855	\$ 3,612	\$ 1,026
Cash payments to suppliers for goods and services	-	-	-	-	(13,475)	(8,986)
Net cash provided by (used in) operating activities	-	-	-	4,855	(9,863)	(7,960)
Cash flows from non-capital financing activities						
Tax notes redeemed	-	-	-	-	-	-
Transfers out	-	(5,000)	-	(5,000)	(30,000)	(35,000)
Net cash provided by non-capital financing activities	-	(5,000)	-	(5,000)	(30,000)	(35,000)
Cash flows from capital and related financing activities						
Interest payments	-	-	-	-	-	-
Principal payments	-	-	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	-	-	-	-	-
Cash flows from investing activities						
Interest received	-	-	-	1	254	409
Amounts collected on leases receivable	-	-	-	-	-	-
Total cash provided from investing activities	-	-	-	1	254	409
Net increase (decrease) in cash and cash equivalents	-	(5,000)	-	(144)	(39,609)	(42,551)
Cash and cash equivalents, beginning of year	2,651	9,104	45,687	78,800	209,437	303,849
Cash and cash equivalents, end of year	\$ 2,651	\$ 4,104	\$ 45,687	\$ 78,656	\$ 169,828	\$ 261,298

2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 384,413	\$ 799,034	\$ 731,365	\$ 16,135	\$ 75	\$ -	\$ -	\$ 1,940,515
(49,848)	(35,403)	(757,857)	(38,131)	(157)	(2)	-	(903,859)
334,565	763,631	(26,492)	(21,996)	(82)	(2)	-	1,036,656
(400,000)	(1,000,000)	-	-	-			(1,400,000)
(375,000)	-	-	-	-			(450,000)
(775,000)	(1,000,000)	-	-	-	-	-	(1,850,000)
(10,283)	(41,959)	-	-	-	(19,482)	(62,744)	(134,468)
-	-	-	-	-	(115,000)	(35,000)	(150,000)
(10,283)	(41,959)	-	-	-	(134,482)	(97,744)	(284,468)
72,019	152,048	6,660	-	-	22	-	231,413
		-	-	-	134,482	97,744	232,226
72,019	152,048	6,660	-	-	134,504	97,744	463,639
(378,699)	(126,280)	(19,832)	(21,996)	(82)	20	-	(634,173)
506,967	635,237	46,533	88,997	82	730	32	1,928,106
\$ 128,268	\$ 508,957	\$ 26,701	\$ 67,001	\$ -	\$ 750	\$ 32	\$ 1,293,933

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds (Concluded)
For the Year Ended December 31, 2006

	1997	1998	1999	2000	2001	2002
	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Cash flows from operating activities						
Operating income (loss)	\$ -	\$ -	\$ -	\$ 477	\$ (13,200)	\$ (67)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	-	-	-	-	-	-
(Increase) decrease in:						
Accounts receivable	-	-	-	-	-	-
Taxes receivable	-	-	-	4,378	3,337	737
Interest receivable	-	-	-	-	-	-
Increase (decrease) in:						
Accounts payable and accrued expenses	-	-	-	-	-	(8,630)
Net cash provided by (used in) operating activities	\$ -	\$ -	\$ -	\$ 4,855	\$ (9,863)	\$ (7,960)

2003 Delinquent Tax Revolving	2004 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	BPW #1 City of Litchfield	BPW #6 Village of Jonesville	Total
\$ 147,774	\$ 73,811	\$ (52,255)	\$ (21,996)	\$ (82)	\$ (2)	-	\$ 134,460
		33,019	-	-			33,019
2,440	3,460	(5,047)		-			853
180,121	683,237	-	-	-			871,810
1,780	(337)	(229)	-	-			1,214
2,450	3,460	(1,980)	-	-			(4,700)
\$ 334,565	\$ 763,631	\$ (26,492)	\$ (21,996)	\$ (82)	\$ (2)	-	\$ 1,036,656

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Fiduciary Funds
December 31, 2006

	Trust & Agency	Land Policy Education	Library Penal Fines	Sheriff Department Retirement	Total
Assets					
Cash and cash equivalents	\$ 262,056	\$ 2,137	\$ 91,417	\$ 22,716	\$ 378,326
Liabilities					
Due to other governments	\$ 128,935	\$ -	\$ -	\$ -	\$ 128,935
Undistributed receipts	133,121	2,137	91,417	22,716	249,391
<u>TOTAL LIABILITIES</u>	\$ 262,056	\$ 2,137	\$ 91,417	\$ 22,716	\$ 378,326

COUNTY OF HILLSDALE, MICHIGAN
Statement of Net Assets / Governmental Funds Balance Sheet
Drain Commission Component Unit
December 31, 2006

	Debt Service		Capital
	Drain Construction Debt	Drain Special Assessment	Lake Level Special Assessment
Assets			
Cash and cash equivalents	\$ 1,941	\$ 278,437	\$ 19,796
Special assessments receivable	-	249,875	-
Accounts receivable	-	-	-
Due from other funds	-	-	319,692
Capital assets, net	-	-	-
	<u>\$ 1,941</u>	<u>\$ 528,312</u>	<u>\$ 339,488</u>
Total assets	<u>\$ 1,941</u>	<u>\$ 528,312</u>	<u>\$ 339,488</u>
Liabilities			
Due to other funds	\$ -	\$ 319,692	\$ -
Advances from primary government	-	-	339,488
Deferred revenue	-	249,875	-
Long-term liabilities:			
Due within one year	-	-	-
Due in more than one year	-	-	-
	<u>-</u>	<u>569,567</u>	<u>339,488</u>
Total liabilities	<u>-</u>	<u>569,567</u>	<u>339,488</u>
Fund balances			
Unreserved, undesignated	1,941	(41,255)	-
	<u>1,941</u>	<u>(41,255)</u>	<u>-</u>
Total fund balances	<u>1,941</u>	<u>(41,255)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,941</u>	<u>\$ 528,312</u>	<u>\$ 339,488</u>
Net assets			
Invested in capital assets, net of related debt			
Unrestricted			
Total net assets			

Projects			Internal Service				
Lake Level Revolving	Drain Construction		Drain Equipment Revolving	Total	Adjustments	Statement of Net Assets	
\$ 11,761	\$ 3,878		\$ 61,502	\$ 464,301	\$ -	\$ 464,301	
-	-		-	302,774	-	302,774	
6,718	-		-	6,718	-	6,718	
-	-		-	319,692	(319,692)	-	
-	-		410,753	410,753	434,271	845,024	
\$ 18,479	\$ 3,878		\$ 472,255	\$ 1,504,238	114,579	1,618,817	
\$ -	\$ -		\$ -	\$ 319,692	\$ (319,692)	\$ -	
18,479	-		-	357,967	-	357,967	
-	-		-	302,774	(302,774)	-	
-	-		2,804	2,804	20,500	23,304	
-	-		-	-	11,000	11,000	
18,479	-		2,804	983,237	(590,966)	392,271	
-	3,878		469,451	521,001	(521,001)	-	
-	3,878		469,451	521,001	(521,001)	-	
\$ 18,479	\$ 3,878		\$ 472,255	\$ 1,504,238			
					842,220	842,220	
					384,326	384,326	
					\$ 1,226,546	\$ 1,226,546	

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Assets
December 31, 2006

Fund balances - Governmental funds	\$ 521,001
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	434,271
Other long-term assets are not available to pay current year expenditures and, therefore, are not recorded in the funds.	
Add - deferred revenue on long-term special assessments receivable	302,774
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Drain notes payable	<u>(31,500)</u>
Net assets of governmental activities	<u><u>\$ 1,226,546</u></u>

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities / Governmental Funds Revenue,
Expenditures, and Changes in Fund Balances
Drain Commission Component Unit
For the Year Ended December 31, 2006

	Debt Service			Capital
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
Revenue				
Interest revenue	\$ 10	\$ 10,718	\$ -	\$ 2,181
Equipment rentals	-	-	-	-
Other revenue	-	33,989	-	(32,106)
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	10	44,707	-	(29,925)
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures/Expenses				
Debt service:				
Principal	-	45,350	-	-
Public works	-	274,342	-	11,720
Depreciation	-	-	-	-
Interest expense	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	-	319,692	-	11,720
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances/ change in net assets	10	(274,985)	-	(41,645)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, beginning of year	1,931	233,730	-	128,631
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, end of year	<u>\$ 1,941</u>	<u>\$ (41,255)</u>	<u>\$ -</u>	<u>\$ 86,986</u>

Projects

Lake Level		Drain		Total		Adjustments		Statement of Net Assets	
Revolving		Construction							
\$	-	\$	21	\$	12,930	\$	-	\$	12,930
	-		-		-		146,782		146,782
	-		-		1,883		302,774		304,657
	-		21		14,813		449,556		464,369
	-		-		45,350		(45,350)		-
	-		478		286,540		96,742		383,282
	-		-		-		72,752		72,752
	-		-		-		921		921
	-		478		331,890		125,065		456,955
	-		(457)		(317,077)		324,491		7,414
	-		4,335		368,627		850,505		1,219,132
\$	-	\$	3,878	\$	51,550	\$	1,174,996	\$	1,226,546

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2006

Net change in fund balance - Governmental funds	\$ (317,077)
---	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	(9,171)
-------------------------------	---------

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Add - Payment of debt principal	45,350
---------------------------------	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add - change in deferred long-term receivables	302,774
--	---------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue of the Drain Equipment revolving internal service fund is reported with governmental activities on the statement of net assets.

	<u>(14,462)</u>
--	-----------------

Change in net assets of governmental activities	<u><u>\$ 7,414</u></u>
---	------------------------

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue,
Expenses, and Changes in Net Assets
Drain Commission Component Unit
Internal Service - Drain Equipment Revolving Fund
For the Year Ended December 31, 2006

Revenue	
Equipment rental	<u>\$ 146,782</u>
Expenses	
Current	
Public works	96,743
Debt service	
Interest	921
Depreciation expense	<u>63,580</u>
Total expenses	<u>161,244</u>
Change in net assets	<u>(14,462)</u>
Net assets, beginning of year	<u>483,913</u>
Net assets, end of year	<u><u>\$ 469,451</u></u>

SINGLE AUDIT ACT COMPLIANCE

**COUNTY OF HILLSDALE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant/ Agreement/ Account Number	Receipts/ Revenue Recognized	Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Passed-through Community Action Agency - Community Development Grant	14.228	xxx	\$ 84,400	\$ 84,400
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed-through the Department of Human Services - IV-D Support Incentive	93.560	n/a	104,218	104,218
Child Support Enforcement: Friend of the Court	93.563	n/a	396,969	396,969
Prosecuting Attorney			59,100	59,100
Total U.S. Department of Health and Human Services			560,287	560,287
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Passed-through Michigan Department of State Police H.O.R.N.E.T. Enhancement Project	84.186	n/a	14,791	14,791
2004 State Homeland Security Grant Program Part V	97.004	n/a	23,444	23,444
Emergency Management Performance Grant	97.042	n/a	3,002	3,002
Subtotal - Michigan Department of State Police			41,237	41,237
Passed-through the Michigan Department of Natural Resources: Marine Safety Program Grant	97.012	n/a	28,905	28,905
Total Department of Homeland Security			70,142	70,142
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Passed through Michigan Office of Highway Safety Planning:				
Youth Alcohol Enforcement	20.661		4,243	4,243
Operation Spotlight Project	20.660	PT-06-09	8,982	8,982
Total Department of Transportation			13,225	13,225
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 728,054	\$ 728,054

COUNTY OF HILLSDALE, MICHIGAN

Note to Schedule Of Expenditures of Federal Awards

For the Year Ended December 31, 2006

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Hillsdale, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 23, 2007

The Board of Commissioners
County of Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **COUNTY OF HILLSDALE** as of and for the year ended December 31, 2006, and have issued our report thereon dated June 23, 2007. We did not audit the financial statements of the Medical Care Facility, which is a major fund, and therefore a separate opinion unit. The Medical Care Facility represents 74% and 90% of the business-type activities assets and program revenues, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the report of the other auditors. The financial statements of the Medical Care Facility Enterprise Fund and the Road Commission Component Unit were not audited in accordance with Government Auditing Standards. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsdale County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies in internal control over financial reporting described in the accompanying schedule of finding and questioned costs as items 2006-1 and 2006-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies referred to above are material weaknesses.

We also noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Hillsdale County in a separate letter dated June 23, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hillsdale County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hillsdale County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

June 23, 2007

The Board of Commissioners
County of Hillsdale, Michigan

Compliance

We have audited the compliance of the **COUNTY OF HILLSDALE** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The *County of Hillsdale's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *County of Hillsdale's* management. Our responsibility is to express an opinion on the *County of Hillsdale's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *County of Hillsdale's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *County of Hillsdale's* compliance with those requirements.

In our opinion, the *County of Hillsdale* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the *County of Hillsdale* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *County of Hillsdale's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiencies identified
not considered to be material weaknesses?

X yes _____ none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiencies identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.560	IV-D Support Incentive
93.563	Child Support Enforcement – IV-D CRP

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

2006-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2006

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Management's response: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2006-2 Trust and Agency fund Accounting

Criteria: The Trust and Agency fund accounts for balances held in a fiduciary or agency capacity. Detail records supporting these balances should be maintained by the entity to achieve proper internal controls and to ensure that the related control accounts (general ledger balances) are correct. This is a responsibility of the government's financial function.

Condition: In our tests of balances at December 31, 2006, we determined that certain balances of the 701 fund were not reconciled, and for those in which reconciliations were made, differences between the general ledger account and supporting details were identified.

Cause: This condition was caused by the County's inability to maintain the reconciliations on a timely basis.

Effect: As a result of this condition, the government lacks internal controls over the maintenance of these accounts, and results in a possibility the underlying general ledger account will have to be adjusted, with adjustments be financed by (or credited to) the general fund.

Management's response: The County will make every effort in 2007 to reconcile accounts of the agency fund, and to make any necessary adjustments thereto.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended December 31, 2006

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - PRIOR YEAR FEDERAL AWARD FINDINGS

None.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 23, 2007

To the Board of Commissioners of
Hillsdale County
Hillsdale, Michigan

We have audited the financial statements of Hillsdale County for the year ended December 31, 2006, and have issued our report thereon dated June 23, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated January 16, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Hillsdale County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Hillsdale County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Hillsdale County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Hillsdale County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Hillsdale County's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Hillsdale County are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Hillsdale County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in the County's internal service fund. We relied upon the work of the third-party expert in determining that the liability is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Hillsdale County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Hillsdale County, either individually or in the aggregate, indicate matters that could have a significant effect on Hillsdale County's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hillsdale County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Hillsdale County

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of Hillsdale County as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the County's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

District Court Accounting Procedures (Repeat comment)

We have noted in our audit that for the District Court depository account that the daily cashing out of the cash drawer and preparation of the bank reconciliation duties are performed by the same individual. This same individual is also one of the authorized signers on the checking accounts, and at times receipts in cash over the counter. Only one signature is presently required on all accounts.

In 2006, the District Court started having another employee review the bank reconciliations, but the review is not documented. In order to complete our recommendation from the previous year, we recommend that this reviewer document this step by initialing and dating. Also, for all checks written over a certain amount, say \$2,500, there should be another signature required.

Financial Coordinator Position (Repeat comment)

Our review of the operations of the County, and knowledge of other municipalities of comparable size across the State would indicate that Hillsdale County is understaffed relative to its accounting function. In our opinion, the accounting function needs to be better coordinated between departments. The County is presently on a cash basis general ledger system, and the conversion to the accrual basis of accounting at the end of the year takes a significant amount of time of various County personnel and representatives of the outside audit firm to bring the general ledger system into compliance with the Michigan Department of Treasury Chart of Accounts and Uniform Accounting manual for Counties.

Hillsdale County

Comments and Recommendations (Continued)

For the Year Ended December 31, 2006

We recommend that the County consider establishing the position of Finance Director or Finance Coordinator to be charged with the full time responsibility of managing the general ledger of the County. Such a position should be filled with a Certified Public Accountant (or an individual of comparable experience and expertise in fund accounting) capable of managing the finances of an organization with assets and revenue in the primary government of approximately \$25 million and \$27 million, respectively. Besides implementing the accrual and modified accrual basis of accounting for all of the County funds, this individual would be a resource for budgeting, financial planning, grant coordination, and other financial management tasks which would certainly be worth the additional cost of the position.

Approval of Bills

Earlier this year, the Local Audit Division (LAFD) of the Michigan Department of Treasury updated the form of its Auditing Procedures Report (APR), which is prepared by the CPA firm and submitted to Treasury along with audited financial statements, and other required reports. Question #14 of the newly revised form addresses the payment of bill process, and cites a requirement that the governmental unit must be furnished with a listing of bills that have been paid to be approved by the Board.

The County Board is currently not being furnished a listing of bills. We recommend that this listing be provided in order to comply with the Department of Treasury requirement.

Entries to Fund Balance accounts

We have noted that there are numerous charges and credits to the beginning fund balance or retained earnings accounts of many funds throughout the year. These charges and credits should be minimized and reserved for larger prior period adjustment amounts. Most of these kinds of adjustments which have historically been coded directly to the fund balance/retained earnings accounts should be coded to a revenue or expense account of the current year for full disclosure and proper tracking, and to provide for a smoother closing out and audit process.

OPEB Liability

The County, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability for these benefits in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the County, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the County through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

Hillsdale County

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2006

The amount of the annual “ARC” expense must be recorded on each entity’s financial statements. To the extent that this annual “ARC” amount is not currently funded, the under-funding must be reported on the entity’s balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the County should make sure all preparations and forecasts are addressed as the implementation date draws nearer.

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